## MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) The four players in the	money supply process include					
A) banks, depositors,	borrowers, and the U.S. Treasury	7.				
B) banks, depositors,	the central bank, and borrowers.					
C) banks, depositors,	the central bank, and the U.S. Tre	easury.				
D) banks, borrowers,	the central bank, and the U.S. Tre	easury.				
2) Federal reserve assets i	nclude					
A) government secur	ities.					
B) discount loans.						
C) currency in circula	ation.					
D) all of the above.						
E) both A and B of th	e above.					
3) Both and a	re Federal Reserve assets.					
A) government secur	A) government securities; bank reserves					
B) currency in circulation; discount loans						
C) discount loans; ba	C) discount loans; bank reserves					
D) currency in circula	D) currency in circulation; government securities					
E) government secur	ities; discount loans					
4) The monetary base con	sists of					
A) reserves and gove	rnment securities.					
B) currency in circulation and Federal Reserve notes.						
C) currency in circula	tion and discount loans.					
D) currency in circula	D) currency in circulation and government securities.					
E) currency in circula	tion and reserves.					
5) The sum of vault cash a	and bank deposits at Federal Rese	erve banks is called				
A) reserves.	B) the money supply.	C) discount loans.	D) the monetary base.			
6) By making discount loa	ans					
A) the Fed increases i	ts assets.					
B) the Fed earns inter	rest income.					
C) the Fed provides r	eserves to the banking system.					
D) all of the above.						
E) both A and B of th	e above.					
7) The interest rate the Fe	d charges banks borrowing from	the Fed is the				
A) Treasury bill rate.						
B) federal funds rate.						
C) discount rate.						
D) prime rate.						
E) mortgage rate.						

8)	When the Federal Reserve p	ourchases a government bor	nd from a bank,			
A) reserves in the banking system decline.		system decline.	B) reserves in the banking system increase.			
	C) Federal Reserve liabilit	ies decline.	D) Federal Reserve liabili	ties remain unchanged.		
9)	When the Federal Reserve s	ells a government bond to a	a bank,			
	A) reserves in the banking	system increase.				
	B) reserves in the banking system remain unchanged.					
	C) reserves in the banking	system decline.				
	D) Federal Reserve liabilit	ies remain unchanged.				
10)	The effect of open market of	on				
A) monetary base; reserves		S	B) reserves; monetary base			
	C) reserves; reserves		D) monetary base; moneta	ary base		
11)	When the Fed extends a \$10	hen the Fed extends a \$100 discount loan to the First National Bank, reserves in the banking system				
A) decrease by more than \$100.		\$100.	B) increase by \$100.			
	C) increase by more than S	\$100.	D) decrease by \$100.			
12)	B) both the monetary base	etary base equals the increase and reserves decrease.		Fed.		
13)	A) decreases the monetary	base.  on the money supply becauses the money supply.  ses the money supply.	government bonds by the Feduse ise the two actions are offsetting			
14)	The formula for the simple	deposit multiplier can be ex	pressed as			
	A) $\triangle \mathbf{r} = (1 \div \mathbf{r} \mathbf{T}) \times \triangle \mathbf{T}$	B) $\triangle R = (1 \div rT) \times \triangle D$	$C) \triangle R = (1 \div r_D) \times \triangle D$	D) $\triangle D = (1 \div r_D) \times \triangle R$		
15)	5) If reserves in the banking system increase by \$100, then checkable deposits will increase by \$1000 in the simple model of deposit creation when the required reserve ratio is					
	A) 0.10.	B) 0.01.	C) 0.05.	D) 0.20.		
16)	) If the required reserve ratio is 20 percent and the Fed increases reserves by \$100, checkable deposits can potentially expand by					
	A) \$500.	B) \$1,000.	C) \$250.	D) \$100.		
17)	') A bank has excess reserves of \$6,000 and demand deposit liabilities of \$100,000 when the required res is 20 percent. If the reserve ratio is raised to 25 percent, the bank's excess reserves will be					
	A) \$1,000.	B) \$5,000.	C) -\$1,000.	D) -\$5,000.		

## Answer Key Testname: CHAPTER 15 PQ.TST

- 1) B 2) E
- 3) E

- 4) E 5) A 6) D 7) C
- 8) B 9) C

- 10) B 11) B 12) A
- 13) B
- 14) D
- 15) A
- 16) A
- 17) A